

**REPORT OF THE AUDIT OF THE  
FORMER EDMONSON COUNTY  
CLERK**

**For The Year Ended  
December 31, 2014**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**

**AUDIT OF THE**  
**FORMER EDMONSON COUNTY CLERK**

**For The Year Ended**  
**December 31, 2014**

The Auditor of Public Accounts has completed the former Edmonson County Clerk's audit for the year ended December 31, 2014. Based upon the audit work performed, we have issued a qualified opinion on the financial statement.

**Financial Condition:**

Excess fees increased by \$14,796 from the prior year, resulting in excess fees of \$41,812 as of December 31, 2014. Receipts increased by \$40,472 from the prior year and disbursements increased by \$25,676.

**Report Comments:**

- 2014-001 The Former County Clerk's Office Lacked Adequate Segregation Of Duties
- 2014-002 Timesheets And Other Payroll Supporting Documentation Were Not Provided
- 2014-003 The Former County Clerk Had \$374 In Disallowed Disbursements For Calendar Year 2014
- 2014-004 The Former County Clerk Had Questioned Costs Of \$381 For Legal Fees During Calendar Year 2014
- 2014-005 The Former County Clerk's Office Changed Public Records In Order To Renew Motor Vehicle Registrations That Had Delinquent Taxes
- 2014-006 The Former County Clerk Had \$541 In Disallowed Disbursements For Calendar Year 2013
- 2014-007 The Former County Clerk Owes Excess Fees Of \$4,668 To Fiscal Court And Additional Tangible Personal Property Taxes To A Taxing District For Calendar Year 2010
- 2014-008 The Former County Clerk Had A Deficit Of \$6,026 For Calendar Year 2011
- 2014-009 The Former County Clerk Owes Excess Fees Of \$1,051 To The Fiscal Court For Calendar Year 2012

**Deposits:**

The former county clerk's deposits as of April 3, 2014, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$12,262

The former county clerk's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the former county clerk's deposits in accordance with the security agreement.



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Wil Cannon, Edmonson County Judge/Executive  
The Honorable Larry Carroll, Former Edmonson County Clerk  
The Honorable Kevin Alexander, Edmonson County Clerk  
Members of the Edmonson County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former County Clerk of Edmonson County, Kentucky, for the year ended December 31, 2014, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



The Honorable Wil Cannon, Edmonson County Judge/Executive  
The Honorable Larry Carroll, Former Edmonson County Clerk  
The Honorable Kevin Alexander, Edmonson County Clerk  
Members of the Edmonson County Fiscal Court

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the former Edmonson County Clerk on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former Edmonson County Clerk, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

### **Basis for Qualified Opinion on Regulatory Basis of Accounting**

The former Edmonson County Clerk did not provide a representation letter as required by auditing standards generally accepted in the United States of America. Furthermore, he did not accept audit adjustments to correct misstatements that were identified and considered material, but not pervasive to the financial statement.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, except for the effects of the matters described above in the Basis for Qualified Opinion paragraph, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former Edmonson County Clerk for the year ended December 31, 2014, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

### **Emphasis of Matters**

As discussed in Note 4 to the financial statements, the former Edmonson County Clerk is involved in litigation. Our opinion is not modified with respect to these matters.



The Honorable Wil Cannon, Edmonson County Judge/Executive  
The Honorable Larry Carroll, Former Edmonson County Clerk  
The Honorable Kevin Alexander, Edmonson County Clerk  
Members of the Edmonson County Fiscal Court

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2016 on our consideration of the former Edmonson County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the former Edmonson County Clerk's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2014-001 The Former County Clerk's Office Lacked Adequate Segregation Of Duties
- 2014-002 Timesheets And Other Payroll Supporting Documentation Were Not Provided
- 2014-003 The Former County Clerk Had \$374 In Disallowed Disbursements For Calendar Year 2014
- 2014-004 The Former County Clerk Had Questioned Costs Of \$381 For Legal Fees During Calendar Year 2014
- 2014-005 The Former County Clerk's Office Changed Public Records In Order To Renew Motor Vehicle Registrations That Had Delinquent Taxes
- 2014-006 The Former County Clerk Had \$541 In Disallowed Disbursements For Calendar Year 2013
- 2014-007 The Former County Clerk Owes Excess Fees Of \$4,668 To Fiscal Court And Additional Tangible Personal Property Taxes To A Taxing District For Calendar Year 2010
- 2014-008 The Former County Clerk Had A Deficit Of \$6,026 For Calendar Year 2011
- 2014-009 The Former County Clerk Owes Excess Fees Of \$1,051 To The Fiscal Court For Calendar Year 2012

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Mike Harmon", with a stylized flourish at the end.

Mike Harmon  
Auditor of Public Accounts

May 31, 2016

EDMONSON COUNTY  
LARRY CARROLL, FORMER COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

HB 537 Revenue Supplement		\$	64,618
State Fees For Services			3,575
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	395,723	
Usage Tax		436,184	
Tangible Personal Property Tax		907,907	
Other-			
Fish and Game Licenses		7,268	
Marriage Licenses		3,415	
Lien Fees		8	
Occupational Licenses		35	
Deed Transfer Tax		28,582	
Delinquent Tax		198,243	1,977,365
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		7,381	
Real Estate Mortgages		14,866	
Chattel Mortgages and Financing Statements		28,390	
Powers of Attorney		1,729	
Affordable Housing Trust		16,428	
All Other Recordings		16,792	
Charges for Other Services-			
Candidate Filing Fees		1,120	
Copywork		3,338	
Postage		1,172	91,216
Other:			
Preparing Tax Bills		2,291	
Miscellaneous		4,056	6,347
Interest Earned			245
Total Receipts			2,143,366

The accompanying notes are an integral part of this financial statement.

EDMONSON COUNTY  
 LARRY CARROLL, FORMER COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2014  
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 271,067
Usage Tax	423,094
Tangible Personal Property Tax	348,715

Licenses, Taxes, and Fees-

Fish and Game Licenses	7,118
Delinquent Tax	18,680
Legal Process Tax	12,517
Affordable Housing Trust	<u>16,464</u>
	\$ 1,097,655

Payments to Fiscal Court:

Tangible Personal Property Tax	110,181
Delinquent Tax	21,145
Deed Transfer Tax	<u>27,173</u>
	158,499

Payments to Other Districts:

Tangible Personal Property Tax	412,233
Delinquent Tax	<u>92,042</u>
	504,275

Payments to Sheriff 17,133

Payments to County Attorney 27,096

Tax Bill Preparation 2,902

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	96,435
Part-Time Salaries	6,327

Employee Benefits-

Employer's Share Social Security	13,745
Employer's Share Retirement	34,017
Employer's Paid Health Insurance	9,810

Contracted Services-

Scanning and Indexing	9,517
Advertising	418
Printing and Binding	2,179
Accounting Professional Fees	4,775
Other Professional Fees	2,950

The accompanying notes are an integral part of this financial statement.

EDMONSON COUNTY  
 LARRY CARROLL, FORMER COUNTY CLERK  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2014  
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay (Continued):

Materials and Supplies-			
Office Supplies	\$	3,948	
Other Charges-			
Conventions and Travel		2,260	
Telephone		2,515	
Postage		5,505	
Office Cleaning		2,100	
Attorney Fees		381	
Audit Fee		34	
Election Supplies		300	
Repairs		780	
Reimbursement of Funds		171	
Refunds		4,973	
Bank Service Charges		176	
Bad Debt Expense		841	
Miscellaneous		20	
Capital Outlay-			
Office Equipment		550	\$ 204,727
Total Disbursements			<u>\$ 2,012,287</u>
Less: Disallowed Disbursements			
Coffee		374	
Total Disallowed Disbursements			<u>374</u>
Total Allowable Disbursements			<u>2,011,913</u>
Net Receipts			131,453
Less: Statutory Maximum			<u>82,131</u>
Excess Fees			49,322
Less: Expense Allowance		3,600	
Training Incentive Benefit		3,910	<u>7,510</u>
Excess Fees Due County for 2014			41,812
Payment to Fiscal Court - March 10, 2015			<u>41,217</u>
Balance Due Fiscal Court at Completion of Audit			<u>\$ 595</u>

The accompanying notes are an integral part of this financial statement.

EDMONSON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the county clerk as determined by the audit. KRS 64.152 requires the county clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting, receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2014

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the county treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the county clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

EDMONSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2014  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Edmonson County Fiscal Court on November 8, 2010 voted to require the former Edmonson County Clerk to begin participating in a fee pooling system with the Edmonson County Fiscal Court as of January 1, 2011. On February 28, 2011, the Edmonson County Fiscal Court passed an ordinance requiring the former Edmonson County Clerk to begin participating in a fee pooling system with the Fiscal Court on March 1, 2011. Fee officials who are required to participate in fee pooling deposit all funds collected into their official operating account. The fee official is responsible for paying all amounts due to the taxing districts. Residual funds are then paid to the county treasurer on a monthly basis. Invoices are submitted to the county treasurer to document operating expenses and timesheets are submitted to the county treasurer to document payroll expenses. The county treasurer pays almost all operating expenses for the fee official. The former Edmonson County Clerk informed the Edmonson County Fiscal Court that he was not going to participate in fee pooling but was going to continue to operate as a fee official who does not fee pool. Therefore, the former Edmonson County Clerk has prepared his financial statement as a fee official who does not fee pool.

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent for the first six months and 17.67 percent for the last six months.

The former County Clerk's contribution for calendar year 2012 was \$31,908, calendar year 2013 was \$35,480, and calendar year 2014 was \$34,017.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

EDMONSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2014  
(Continued)

Note 2. Employee Retirement System (Continued)

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Edmonson County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the county clerk's deposits may not be returned. The former county clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 66.480(1)(d) and KRS 41.240. As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of April 3, 2014 public funds were exposed to custodial credit risk because the bank did not adequately collateralize the former county clerk's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured      \$12,262

EDMONSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2014  
(Continued)

Note 4. Litigation

Civil Action 11-CI-00023

On January 26, 2011, the former Edmonson County Clerk filed litigation in Edmonson Circuit Court against the former (then current) Edmonson County Judge/Executive and the Edmonson County Fiscal Court challenging the county's fee-pooling requirement and requesting declaratory judgment on various issues relating to the operation and budget of the clerk's office. In addition, the litigation sought injunctive relief and recovery of the former county clerk's costs and attorney fees.

On February 14, 2011, the former (then current) Edmonson County Judge/Executive and the Edmonson County Fiscal Court countersued requesting entry of a judgment dismissing the complaint with prejudice and a judgment against the former clerk in the amount of \$21,163 for calendar year 2009. In addition, the fiscal court sought recovery of costs, expenses, attorney's fees, and prejudgment and post judgment interest as may be available under applicable law.

On October 24, 2011, the Edmonson County Circuit Court granted the fiscal court's motion for summary judgment regarding its authority over the former county clerk pursuant to KRS 64.530 and upholding its authority to enact Ordinance EC-11-03. The former county clerk's claims against the fiscal court were dismissed with prejudice. Additionally, the circuit court ruled this order had no effect of fiscal court's counterclaim against the former county clerk and the counterclaim would continue in Edmonson County Circuit Court. On November 23, 2011, the former county clerk filed an appeal of the circuit court's decision with the Kentucky Court of Appeals.

On March 14, 2014, the Kentucky Court of Appeals decided this case in favor of the Edmonson County Fiscal Court and held that the fiscal court has the authority to require the county clerk to fee pool.



EDMONSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2014  
(Continued)

Note 4. Litigation (Continued)

Civil Action 12-CI-00039

On February 29, 2012, the former (then current) Edmonson County Judge/Executive and the Edmonson County Fiscal Court filed litigation in Edmonson Circuit Court against the former Edmonson County Clerk, requesting a judgment of \$24,771. This amount is obtained from the audit report for calendar year 2010 released by the Auditor of Public Accounts. Of this amount, \$20,103 is from the former county clerk exceeding the deputies' maximum salary limitation set by the fiscal court for 2010, and \$4,668 is excess fees due to the fiscal court for 2010. In addition, the fiscal court seeks recovery of costs, expenses, attorney's fees, and recovery of prejudgment and post judgment interest as may be available under applicable law. On May 22, 2012, the former Edmonson County Clerk countersued requesting declaratory judgment that the fiscal court is without authority to amend the county clerk's budget without his accord and that the annual clerk's office budgets passed by the Edmonson County Fiscal Court were arbitrary, unreasonable, and contrary to law therefore nullifying any claims of the fiscal court. In addition, the countersuit seeks award of the former county clerk's costs and attorney's fees. This case is currently pending in Edmonson County Circuit Court.

Civil Action 13-CI-00109

On September 4, 2013, the former (then current) Edmonson County Judge/Executive and the Edmonson County Fiscal Court filed litigation in Edmonson Circuit Court against the former Edmonson County Clerk, requesting a judgment of \$13,061. This amount is obtained from the audit report for calendar year 2011 released by the Auditor of Public Accounts. Of this amount, \$7,035 is from the former county clerk exceeding the deputies' maximum salary limitation set by the fiscal court for calendar 2011, and \$6,026 is excess fees due to the fiscal court for calendar year 2011. In addition, the fiscal court seeks recovery of costs, expenses, attorney's fees, and recovery of prejudgment and post judgment interest as may be available under applicable law.

On September 24, 2013, the former Edmonson County Clerk countersued requesting declaratory judgment that the fiscal court is without authority to amend the former county clerk's budget without his accord and that the annual clerk's office budgets passed by the Edmonson County Fiscal Court were arbitrary, unreasonable, and contrary to law thereby nullifying any claims of the fiscal court. In addition, the countersuit seeks award of the former county clerk's costs and attorney's fees. This case is currently pending in Edmonson County Circuit Court.

Note 5. Subsequent Events

On November 18, 2015, a former deputy clerk was indicted by the Edmonson County Circuit Court on 28 counts of "Entering False Information to Produce A Title Document" and 28 counts of "Processing Prohibited When Property Tax Account Delinquent." On February 17, 2016, an Order was entered setting a trial date for June 22, 2016 and pretrial conference for June 20, 2016, both in Edmonson County Circuit Court.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Wil Cannon, Edmonson County Judge/Executive  
The Honorable Larry Carroll, Former Edmonson County Clerk  
The Honorable Kevin Alexander, Edmonson County Clerk  
Members of the Edmonson County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Excess Fees - Regulatory Basis of the former Edmonson County Clerk for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated May 31, 2016. The former Edmonson County Clerk's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the former Edmonson County Clerk's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Edmonson County Clerk's internal control. Accordingly, we do not express an opinion on the effectiveness of the former County Clerk's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-001 and 2014-005 to be material weaknesses.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With *Government Auditing Standards*  
(Continued)

**Internal Control Over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-004, 2014-007, 2014-008, and 2014-009 to be significant deficiencies.


**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Edmonson County Clerk's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2014-002, 2014-003, 2014-004, 2014-005, 2014-006, 2017-007, 2014-008 and 2014-009.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Mike Harmon', followed by a horizontal line.

Mike Harmon  
Auditor of Public Accounts

May 31, 2016

## COMMENTS AND RECOMMENDATIONS





EDMONSON COUNTY  
LARRY CARROLL, FORMER COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2014

FINANCIAL STATEMENT FINDINGS:

2014-001 The Former County Clerk's Office Lacked Adequate Segregation Of Duties

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The former county clerk's office had a lack of segregation of duties over cash, receipts, disbursements, receivables, and the reconciliation process. The bookkeeper collected receipts, prepared deposits and daily checkout sheets, printed and signed checks, and prepared quarterly reports. She also posted to the ledgers and reconciled the monthly bank accounts.

This condition is a result of a limited budget, which restricted the number of employees the former county clerk could hire or delegate duties.

The lack of segregation of duties increased the risk of misappropriation of assets, errors or inaccurate financial reporting in the former county clerk's office.

Adequate segregation of duties would have prevented the same person from having a significant role in the receiving process, recording, and reporting of receipts and disbursements. To adequately protect employees in the normal course of performing their duties, and prevent inaccurate financial reporting or misappropriation of assets, the former county clerk could have separated the duties involving receipts, disbursement of cash, preparation of the quarterly reports, and bank reconciliation process. If segregation of duties is not feasible due to a limited number of staff, the former county clerk could have provided sufficient oversight or implemented other compensating controls.

*Former County Clerk's Response: No response.*

2014-002 Timesheets And Other Payroll Supporting Documentation Were Not Provided

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Timesheets, supporting documentation regarding employee leave balances, and IRS 1099 forms were not provided during the course of the audit. The former bookkeeper stated timesheets and 1099 forms were maintained and leave balances for employees were tracked; however, she was unaware of their location. The auditor informed the former county clerk of the missing documentation, but it was not provided. Due to a change in officials in 2015, the former county clerk's records could have been misplaced. Federal and state laws require employees to keep an accurate record of time worked in order to calculate employee pay and benefits. Therefore, the former county clerk is not in compliance with applicable federal and state laws.

KRS 337.320(1)(b) states, in part, "Every employer shall keep a record of ...[t]he hours worked each day and each week by each employee...." In addition, the Edmonson County Administrative Code states in section 340.10, "All hourly employees paid by county funds are required to use time clocks." Also, section 340.3 states, "Each Supervisor shall keep records of vacation time allowance, vacation time taken, and the balance of vacation time allowance for each employee under his supervision." According to the Internal Revenue Service Quick Reference Guide for Public Employers, "Any person or business that performs services for compensation and does not meet the control test for employees...is an independent contractor. Generally, any payment of \$600 or more during a calendar year to an independent contractor should be reported to the payer on Form 1099-MISC, Miscellaneous Income, by January 31 of the following year."

EDMONSON COUNTY  
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COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2014  
(Continued)

FINANCIAL STATEMENT FINDINGS (CONTINUED):

2014-002 Timesheets And Other Payroll Supporting Documentation Were Not Provided (Continued)

The former county clerk should have required timesheets for all employees for each pay period indicating the actual hours worked and any sick or vacation leave taken. The timesheet should have been signed by the employee indicating agreement with the hours worked, and reviewed and signed by their immediate supervisor or the former county clerk. In addition, the former county clerk should have issued IRS 1099 forms to independent contractors. All documentation should have been provided to auditors.

*Former County Clerk's Response: No response.*

2014-003 The Former County Clerk Had \$374 In Disallowed Disbursements For Calendar Year 2014

The former county clerk expended \$374 for coffee during 2014. Purchasing items that are personal in nature reduced the amount of operating funds for the former county clerk's office and reduced the amount of excess fees paid to the fiscal court.

The former county clerk did not monitor disbursements to ensure compliance with state laws and regulations. In Funk vs. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' disbursements of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses.

Since the coffee purchased was considered personal in nature, we have disallowed these disbursements and recommend the former county clerk deposit personal funds of \$374 to reimburse the 2014 fee account for disallowed disbursements. We will refer this matter to the county attorney for collection.

*Former County Clerk's Response: No response.*

2014-004 The Former County Clerk Had Questioned Costs Of \$381 For Legal Fees During Calendar Year 2014

The former county clerk expended \$381 for legal fees during 2014. The legal fees were expended from the annual supplement account received from the Kentucky Transportation Cabinet. The legal fees were for a private attorney hired by the former county clerk to represent him in litigation involving the Edmonson County Fiscal Court. The former county clerk is involved in three separate lawsuits involving the fiscal court.

We were unable to determine how much was expended on each matter, and were unable to determine if the legal fees were incurred as a result of the former county clerk fulfilling his statutory duties. OAG 82-439 opines that legal fees incurred by a county official as a result of a legal action against that county official in his official capacity are an allowable expense of the office, provided that (1) the county attorney declined to represent the official, thus requiring the official to obtain outside counsel, and (2) the official acted in good faith and within his official authority and scope of his statutory duties. Paying legal fees out of the public funds of the former county clerk's office, which are not incurred as a result of the former county clerk fulfilling his statutory duties, reduces the amount of operating funds for the former county clerk's office or reduces the amount of excess fees paid to the fiscal court.

EDMONSON COUNTY  
 LARRY CARROLL, FORMER COUNTY CLERK  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2014  
 (Continued)

FINANCIAL STATEMENT FINDINGS (CONTINUED):

2014-004 The Former County Clerk Had Questioned Costs Of \$381 For Legal Fees During Calendar Year 2014 (Continued)

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Good internal controls dictate that the former county clerk should have documented the reason for the legal fees and how the legal fees related to his statutory duties. However, the former county clerk did not document the reason for legal fees or how the legal fees related to his statutory duties. We recommend the Edmonson County Fiscal Court, in consultation with the Edmonson County Attorney, consider whether the former county clerk's legal fees of \$381 are related to the statutory duties of the former county clerk, and whether they should be allowed as a proper charge against the former county clerk's fees.

The fiscal court, after consultation with the county attorney, may also wish to consider the feasibility of raising the issue regarding the questioned legal fees in the current, ongoing litigation between the former county clerk and the fiscal court.

*Former County Clerk's Response: No response.*

2014-005 The Former County Clerk's Office Changed Public Records In Order To Renew Motor Vehicle Registrations That Had Delinquent Taxes

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During calendar year 2014, the former county clerk's office changed social security numbers in the AVIS system from the former county clerk's office. The auditor tested thirty transactions and noted the following:

- In 14 of the 30 transactions, one digit of the taxpayer's social security number was changed during a transaction processed from the former county clerk's office in the AVIS system. In all of these instances the taxpayer owed delinquent ad valorem taxes, which should have been paid prior to renewing the registration.
- In eight of the 30 transactions, one digit of the taxpayer's social security number was changed during a transaction processed from the former county clerk's office in the AVIS system. In all of these instances ad valorem taxes were due for the current year.
- In three of the 30 transactions, the social security number for the taxpayer was correct but was changed to the taxpayer's spouse's social security number. Two of these instances had ad valorem taxes that were due for the current year.
- In one of the 30 transactions, one digit of the taxpayer's social security number was changed during a transaction processed from the former county clerk's office in the AVIS system. In this instance no ad valorem tax was due.
- In four of the 30 transactions, invalid social security numbers were entered in the AVIS system. The invalid social security number for all instances was listed as 999-99-999

Before an individual can title or register any vehicle in their name, the AVIS system requires all due and delinquent ad valorem taxes related to the individual's social security number to be paid. Therefore, the taxpayer avoided paying motor vehicle taxes, and taxing districts did not receive tax distributions they were entitled to.

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 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2014  
 (Continued)

FINANCIAL STATEMENT FINDINGS (CONTINUED):

2014-005 The Former County Clerk's Office Changed Public Records In Order To Renew Motor Vehicle Registrations That Had Delinquent Taxes (Continued)

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The former county clerk's office changed public records in order to override the controls in place and allow someone with delinquent taxes to renew a registration, without first paying the delinquent taxes owed. KRS 186.021(1) states, in part, "a county clerk shall not issue a replacement plate, decal, or registration certificate...or a registration for renewal to any person who on January 1 of any year owned a motor vehicle on which...ad valorem taxes are delinquent."

KRS 186A.145 prohibits the county clerk from processing an application for Kentucky title and registration from or to any Kentucky resident who has delinquent motor vehicle ad valorem property taxes, except for transactions involving licensed Kentucky motor vehicle dealers.

Furthermore, KRS 186A.275 states, "[n]o county clerk or other person who is authorized to utilize the automated vehicle registration and titling system, shall knowingly enter into such system, information enabling the system to produce a certificate of title and registration, certificate of registration, or certificate of title,...unless he has in his official custody at the time he enters such information into the system, an application which he believes to be bona fide and in proper form...."

The former county clerk's office should have implemented procedures to ensure social security numbers were entered correctly in AVIS and ensured no renewal of registration was completed until all delinquent taxes associated with it were paid as required by KRS 186.021. In addition, the former county clerk's office should have established procedures to ensure all requirements of KRS were met when entries were made in AVIS, which includes entering information accurately. We will refer this matter to the Attorney General's Office, the Kentucky Transportation Cabinet, and the Kentucky Department of Revenue for further review.

*Former County Clerk's Response: No response.*

2014-006 The Former County Clerk Had \$541 In Disallowed Disbursements For Calendar Year 2013

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During 2013, the former county clerk had disbursements for coffee in the amount of \$541. Purchasing items which are personal in nature reduces the amount of operating funds for the former county clerk's office or reduces the amount of excess fees paid to the fiscal court. The former county clerk did not monitor disbursements to ensure compliance with state laws and regulations. In Funk vs. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky's highest court reaffirmed the rule that county fee officials' disbursements of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses. Since the coffee purchased was considered personal in nature, the disbursements have been disallowed and we recommend the former county clerk deposit personal funds of \$541 to reimburse the 2013 fee account for disallowed disbursements. We will refer this matter to the county attorney for collection.

*Former County Clerk's Response: No response.*

EDMONSON COUNTY  
 LARRY CARROLL, FORMER COUNTY CLERK  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2014  
 (Continued)

FINANCIAL STATEMENT FINDINGS (CONTINUED):

2014-007 The Former County Clerk Owes Excess Fees Of \$4,668 To Fiscal Court And Additional Tangible Personal Property Taxes To A Taxing District For Calendar Year 2010

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Based upon the prior audit reports, the former county clerk owed \$4,668 in excess fees for calendar year 2010. The additional excess fees owed are 2010 monies used to cover a deficit in calendar year 2009 (see audit report for calendar year 2009) and disallowed disbursements in calendar year 2010. As discussed in the calendar year 2009 audit, the former county clerk covered a deficit that occurred in 2009 of \$4,522 by paying a 2009 statutorily required disbursement from the 2010 fee account. As of the audit date, this amount had not been reimbursed to the 2010 fee account from the 2009 fee account as recommended by the auditors. Therefore, the fiscal court and the City of Brownsville did not receive monies they were entitled to.

KRS 64.820 states, “(1) The fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and 64.810 if the amount can be collected without suit. (2) In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor...to be due the county within ninety (90) days from the date of receiving the Auditor’s or certified public accountant’s report.”

We recommend the former county clerk reimburse the 2009 fee account \$4,522 with personal funds as recommended by the 2009 audit report. We also recommend the former county clerk reimburse the 2010 fee account \$328 for disallowed disbursements and \$29 to cover an undetermined immaterial amount. Once these funds are deposited, we recommend the former county clerk transfer \$4,522 from the 2009 to 2010 fee account and pay additional excess fees for calendar year 2010 of \$4,668 to the fiscal court and \$211 to the City of Brownsville for unpaid tangible personal property taxes for calendar year 2010. We will refer this matter to the county attorney for collection.

*Former County Clerk’s Response: No response.*

2014-008 The Former County Clerk Had A Deficit Of \$6,026 For Calendar Year 2011

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Based upon the prior audit reports, the former county clerk had a deficit of \$6,026 in his official 2011 fee account. The former county clerk’s office expended \$5,281 more than collected for calendar year 2011. In addition, the former county clerk’s office expended funds of \$745 for a disallowed penalty and personal items.

Failing to monitor allowable operating disbursements resulted in expending more on allowable operating disbursements than income earned and in expending funds on disallowed disbursements. Good internal controls dictate the former county clerk should have monitored his operating disbursements to ensure he did not expend more than available receipts, expend funds on disallowed disbursements, or have a deficit in his official fee account.

EDMONSON COUNTY  
 LARRY CARROLL, FORMER COUNTY CLERK  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2014  
 (Continued)

FINANCIAL STATEMENT FINDINGS (CONTINUED):

2014-008 The Former County Clerk Had A Deficit Of \$6,026 For Calendar Year 2011 (Continued)

KRS 64.820 states, “(1) The fiscal court shall collect any amount due the county from county officials as determined by the audit of the official conducted pursuant to KRS 43.070 and 64.810 if the amount can be collected without suit. (2) In the event the fiscal court cannot collect the amount due the county from the county official without suit, the fiscal court shall then direct the county attorney to institute suit for the collection of the amount reported by the Auditor...to be due the county within ninety (90) days from the date of receiving the Auditor’s or certified public accountant’s report.”

We recommend the former county clerk deposit personal funds of \$6,026 to cover the deficit in his official 2011 fee account. After this amount is deposited to the 2011 fee account, the former county clerk should reimburse his 2012 fee account for \$4,371 of the \$4,550 of 2012 collections used to pay 2011 disbursements which has not been reimbursed, pay delinquent taxes of \$1,482 to the appropriate taxing district or official for a tax bill inadvertently not reported and paid for August 2011, and pay a refund of \$173 to an employee for health insurance inadvertently withheld. We will refer this matter to the county attorney for collection.

*Former County Clerk’s Response: No response.*

2014-009 The Former County Clerk Owes Excess Fees Of \$1,051 To The Fiscal Court For Calendar Year 2012

Based upon the prior audit reports, the former county clerk owed \$1,051 in excess fees for calendar year 2012. The primary reason for the additional excess fees owed was disallowed disbursements in calendar year 2012. As of the audit date, this amount had not been reimbursed to the 2012 fee account as recommended by the auditors. Failing to monitor allowable operating disbursements resulted in expending funds on disallowed disbursements. Good internal controls dictate that the former county clerk should have monitored his operating disbursements to ensure that he did not expend funds on disallowed disbursements. In Funk vs. Milliken, 317 S.W.2d 499 (Ky. 1958), Kentucky’s highest court reaffirmed the rule that county fee officials’ disbursements of public funds will be allowable only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses. We recommend the former county clerk reimburse the 2012 fee account \$1,051 with personal funds for disallowed disbursements as recommended by the 2012 audit report and then remit this amount to fiscal court as excess fees.

*Former County Clerk’s Response: No response.*

